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# Improving Accountability in the Solomon Islands: A Review of Auditor-General Enabling Legislation

Colin Clark and Ken Levy\*

## Abstract

*Australian assistance to the Solomon Islands was provided in rebuilding of the Office of the Auditor-General. To evaluate the progress, we analyse the relevant legislation and oral evidence. The analysis reveals the issues underpinning the Auditor-General's role, including poor financial accounting systems, weak internal/procedural controls and inadequate administrative/clerical recording systems. A second set of issues pertains to conflict of interest by senior government figures, impropriety by senior public servants and politicians involving public monies, and a paucity of training of staff in systems, procedures and ethical accounting practices. To rectify these shortcomings, we propose modifications of existing legislation and strategies to improve the efficiency of the Office of the Auditor-General.*

## I. Introduction

Corruption and its multiple damaging consequences in developing countries has become an issue of increasing concern and interest, both among analysts and policy-makers.<sup>1</sup>

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<sup>1</sup> P Mauro, 'Corruption: Causes, Consequences, and Agenda for Further Research' (1998) 35 *Finance & Development* 11.

Every year US\$20-40 billion is stolen from developing countries through bribery, misappropriation of funds and other corrupt practices,<sup>2</sup> and the extent of annual worldwide corrupt transactions is close to US\$1 trillion,<sup>3</sup> accounting for up to 12% of the Gross Domestic Product of nations like Nigeria, Kenya and Venezuela.<sup>4</sup>

Corruption reduces economic growth by lowering private investment, which accounts for at least one-third of corruption's overall negative effects.<sup>5</sup> Where corruption occurs in the form of tax evasion, there is a corresponding shortage of funds for productive investment.<sup>6</sup> It leads to adverse budgetary consequences.<sup>7</sup> In consequence, fundamental needs such as food, health and education, are not met.<sup>8</sup> Corruption discriminates against the poor by denying them access to public services.<sup>9</sup>

Corruption encourages the overexploitation of forests, fisheries and farmlands in pursuit of quick profits without regard to the long-term needs and livelihoods of local populations, which has a devastating impact on the environment.<sup>10</sup> In developing countries, such practices increase divisions among ethnic groups and communities and lead to the breakdown of social cohesion.

Systemic corruption was investigated in the National Integrity System Country Studies: Pacific Island Countries (NISPAC) conducted in 2004. That study looked at the 11 pillars of public sector integrity including Parliaments and Governments, and independent institutions such as Auditor-Generals and the Judiciary.<sup>11</sup> An assessment of Pacific Island countries, including the Solomon

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<sup>2</sup> World Bank, 'Corruption Fighters Tackle Stolen Asset Recovery, Elimination of Safe Havens' (*News & Broadcast*, 9 June 2010); available at: <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22609142~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>.

<sup>3</sup> D Kaufman, '10 Myths About Governance and Corruption' (2005) 42 *Finance & Development - A quarterly magazine of the IMF*; available at: <http://www.imf.org/external/pubs/ft/fandd/2005/09/basics.htm>.

<sup>4</sup> A Nwabuzor, 'Corruption and Development: New Initiatives in Economic Openness and Strengthened Rule of Law' (2005) 59 *Ethics* 121.

<sup>5</sup> Anti-Corruption Resource Centre, 'Causes & consequences of corruption' (2010); available at: <http://www.u4.no/helpdesk/faq/faqs1.cfm#17> and D Frisch, 'The effects of corruption on development' (1996) 158 *The Courier ACP-EU* 68.

<sup>6</sup> See Anti-Corruption Resource Centre (note 5 above).

<sup>7</sup> KM Murphy, A Schleifer and RW Vishny, 'Why is Rent-Seeking So Costly to Growth' (1993) 83 *American Economic Review* 409.

<sup>8</sup> See Frisch (note 5 above).

<sup>9</sup> See Anti-Corruption Resource Centre (note 5 above).

<sup>10</sup> *Ibid.*

<sup>11</sup> P Larmour and M Barcham, *National Integrity System Pacific Islands: Overview Report* (Transparency International Australia, Blackburn, 2004).

Islands, revealed that corruption was a significant problem.<sup>12</sup>

The Solomon Islands has a population of over 500,000 people living on 900 mountainous islands and coral atolls covering about 28,000km<sup>2</sup>.<sup>13</sup> The bulk of the population depends on agriculture, fishing, and forestry for its livelihood. Most manufactured goods and petroleum products must be imported. The islands are rich in undeveloped mineral resources.<sup>14</sup>

From 1999-2003, civil conflict left the country almost bankrupt<sup>15</sup> and accelerated a decline in social conditions. Ethnic violence, the closing of key businesses, and an empty government treasury culminated in economic collapse.<sup>16</sup>

The severity of the crisis has led some authors to argue that the Solomon Islands was a failed state.<sup>17</sup> In contrast, other commentators have contended that the Solomon Islands is not a failed state,<sup>18</sup> and that the 'patronage system and associated corruption' are not 'an aberration or deviation' from other 'legal-rational forms of governance'.<sup>19</sup>

In 2003, the Regional Assistance Mission to the Solomon Islands (RAMSI) was provided with a mandate, by the Solomon Islands and other nations of the Pacific region, to address civil unrest, economic decline and dramatic decline in service delivery and government administrative standards.<sup>20</sup> Australian aid to the Solomon Islands is delivered through a bilateral aid program in the areas of health, education, economic livelihood, infrastructure and reform, as well as the RAMSI.<sup>21</sup>

In 2010-11 AusAID's bilateral program will provide an estimated AU\$50.9 million in aid. Other Australian assistance provided through RAMSI, AusAID's regional and global programs and other Australian Government agencies such

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<sup>12</sup> P Larmour and M Barcham, 'National Integrity System in Small Pacific Island States' (2006) 26 *Public Administration and Development* 173.

<sup>13</sup> Australian Government AusAID, 'Solomon Islands Country Profile'; available at: <http://www.ausaid.gov.au/country/country.cfm?CountryID=16>.

<sup>14</sup> BBC News Asia, 'Solomon Islands profile'; available at: [http://news.bbc.co.uk/2/hi/asia-pacific/country\\_profiles/1249307.stm](http://news.bbc.co.uk/2/hi/asia-pacific/country_profiles/1249307.stm).

<sup>15</sup> *Ibid.*

<sup>16</sup> See Australian Government AusAID (note 13 above).

<sup>17</sup> J Fraenkel, *The Manipulation of Custom: From Uprising to Intervention in the Solomon Islands* (Victoria University Press, Wellington, NZ, 2004) and J Roughan, 'Pacific First: A Failed State' *Solomon Star* (13 February 2002).

<sup>18</sup> M Nguyen, 'The Question of Failed States: Australia and the Notion of State Failure' *View on Asia Briefing Series* (Uniya, 2005).

<sup>19</sup> S Hameiri, 'The Trouble with RAMSI: Reexamining the Roots of Conflict in Solomon Islands' (2007) 19 *The Contemporary Pacific* 409.

<sup>20</sup> Regional Assistance Mission (RAMSI), 'RAMSI Brief' (undated).

<sup>21</sup> See Australian Government AusAID (note 13 above).

as the Australian Federal Police, Treasury and Customs, brings total estimated expenditure in 2010-11 to AU\$225.6 million.<sup>22</sup>

The Accountability Program: Program Framework Document,<sup>23</sup> within the RAMSI Machinery of Government pillar, includes the Auditor-General, Ombudsman, and Leadership Code Commission, and sets out details of the program and the context in which a review of the Auditor-General's enabling legislation occurred in 2007. The Accountability Program was informed by the Report of a Review of Accountability Institutions of the Solomon Islands.<sup>24</sup>

RAMSI assisted in the rebuilding of the Office of the Auditor-General, which had largely become inactive because of the deterioration in the resourcing of the Office since the mid-1990s, through building staff levels.<sup>25</sup>

Following the introduction above, the present research, the research process and methodology are outlined. The evidence, both documentary and oral, is outlined, and was presented more fully in a report previously prepared by the authors. The relevant legislation is discussed. The evidence is then analysed and then conclusions and recommendations are provided.

## II. Methodology

Consultations were undertaken with stakeholders, to ascertain perceptions of limitations and initial proposals for change to the current legislation. The stakeholders were: the Auditor-General; the Deputy Auditor-General; the Office of the Auditor-General; Sir Peter Kenilorea, Speaker of the Solomon Islands Parliament and former Prime Minister; the Ministry of Finance and Treasury; the Permanent Secretary, Ministry of Public Service; the Permanent Secretary, Department of Prime Minister; Research and Committee Officers, National Parliament of the Solomon Islands; the Integrity Group Forum (the Auditor-General, the Ombudsman, the Leadership Code Commission, the Central Bank, the Prison Service, the Police Service and the Director of Public Prosecutions); the Investigation Management Advisor, Leadership Code Commission; the Legislative Drafter, Leadership Code Commission; the Director of Public Prosecutions; the Acting Accountant General, Treasury Division; the Public Accounts Committee Member and Leader of the Opposition; the Institute of

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<sup>22</sup> *Ibid.*

<sup>23</sup> Regional Assistance Mission (RAMSI), 'Accountability Program: Program Framework Document' (September 2006).

<sup>24</sup> JTD Wood, 'Report of a Review of Accountability Institutions of the Solomon Islands' Technical Assistance Governance Facility for Solomon Islands, Honiara (2005).

<sup>25</sup> Regional Assistance Mission (RAMSI), 'RAMSI Medium Term Strategy: an Overview of the Process' PowerPoint Slides (undated).

Solomon Islands Accountants; RAMSI Senior Development Program Specialist; Partner, PricewaterhouseCoopers; members of CPA Australia; Group Audit Directors; the United Nations Development Program; and the Parliamentary Strengthening Program.

The existing Solomon Islands legislation was examined and the previous draft amendments developed in 2000 were considered. Having identified the issues to be addressed in the current legislation, legislation in other jurisdictions within the Pacific and Australia have been examined, noting suitability for the Solomon Islands environment.

This report uses a framework developed by English and Guthrie<sup>26</sup> to consider the powers required to conduct audits (the mandate to perform audits; independence from direction by the executive; funding of the Auditor-General) and accountability mechanisms available to parliament (the scope of audit in the public sector; powers of parliament in relation to audit; funding determined by parliament; oversight of the Auditor-General). The model involves a categorization of factors in the analysis of the evidence, and to highlight the major issues for a contemporary Auditor-General function in the Solomon Islands.

This framework has been used to examine the enabling legislation of supreme audit institutions at a national level for European countries;<sup>27</sup> African countries;<sup>28</sup> Asian countries;<sup>29</sup> Australian states and territories,<sup>30</sup> as well as to compare the independence and accountability provisions of Auditor-General enabling legislation against those of other statutory officers of parliament.<sup>31</sup>

The legislation examined in those studies has informed the present analysis of the present Solomon Islands legislation and the development of recommended reforms.

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<sup>26</sup> L English and J Guthrie, 'Mandate, Independence, and Funding: Resolution of a Protracted Struggle between Parliament and the Executive over the Powers of the Australian Auditor-General' (2000) 59 *Australian Journal of Public Administration* 98.

<sup>27</sup> C Clark, M De Martinis and M Krambia-Kapardis, 'Audit Quality Attributes of European Union Supreme Audit Institutions' (2007) 19 *European Business Review* 40.

<sup>28</sup> C Clark, M De Martinis and R Kiraka, 'Transformation of Public Sector Auditing in Southern African Countries: Comparing the Independence and Accountability of Supreme Audit Institutions' (2003) 38 *Journal of Public Administration* (South Africa) 118.

<sup>29</sup> R Kiraka, C Clark and M De Martinis, 'Public Sector Auditing, Accountability and Independence: a Study of ASEAN Countries' (2002) 10 *Asian Review of Accounting* 43.

<sup>30</sup> M De Martinis and C Clark, 'The Accountability and Independence of the Auditors-General of Australia: A Comparison of their Enabling Legislation' (2003) 13 *Australian Accounting Review* 26.

<sup>31</sup> C Clark and M De Martinis, 'A Framework for Reforming the Independence and Accountability of Statutory Officers of Parliament: A Case Study of Victoria' (2003) 62 *Australian Journal of Public Administration* 32.

The evidential process consisted of oral evidence from the key stakeholders and their representatives, as well as analysis of the legislative provisions governing the Auditor-General's functions and operations. The present research took account of the strategic planning process for the Office of the Auditor-General<sup>32</sup> together with a review of the budget and structure of the accounts for the government.

### III. Analysis

The role and efficacy of the Auditor-General's Office in the Solomon Islands has been an issue of long standing. For example, at the time of undertaking the legislative review, the accounts for some ministries had been last audited in the period 1997-99, while some provincial government accounts had their accounts last audited in the period 1989-95. For state owned enterprises<sup>33</sup> and statutory authorities, some of these audits date back to the 1996-98 period.

The option of establishing a National Audit Office (NAO) has been revisited a number of times. In 1985, the Cabinet considered the establishment of an NAO but decided against that proposal, noting that there were good reasons to enhance the Auditor-General's powers.

Subsequently, in February 2000, the Cabinet considered a draft bill which had the objective of the enactment of a National Audit Act providing for:

- the establishment of an NAO, as a statutory body, independent of the public service and headed by the Auditor-General;
- the Auditor-General's power to conduct performance audits and to determine staffing, including numbers and salaries;
- the NAO to operate on a user pays basis charging audit fees, with that revenue to the Auditor-General being supplemented through the appropriation process;
- the oversight of the NAO performance, especially by the Public Accounts Committee; and
- the Public Accounts Committee role to include examination of the Auditor-General's resource requirements given the Work Plan and the proposed employment conditions for staff of the Auditor-General's Office.<sup>34</sup>

The rationale for these proposed reforms was the long standing difficulties in

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<sup>32</sup> Office of the Auditor-General, 'Strategic Audit Plan and Tactical Audit Plan 2008-2012' (November 2007).

<sup>33</sup> State Owned Enterprises Act 2007.

<sup>34</sup> Submissions and Briefing Notes on Proposed Audit Legislation 1999-2000.



staffing the audit office, the need to strengthen the public sector audit function as part of the government's reform agenda, and to create a strong Auditor-General to re-establish public and donor confidence in the Solomon Islands accountability processes. Despite the apparent approval by the Cabinet of these reforms, it appears that amendment of the legislation has not been progressed due to the recent social problems which diverted previous government priorities and resources.

### *Relevant legislation*

Section 108 of the Constitution of the Solomon Islands<sup>35</sup> provides for the Auditor-General's Office as being a public office and sets out the means of appointment of the Auditor-General, the scope of entities subject to audit, information gathering powers, reporting arrangements, the Auditor-General's freedom from direction, and provides Parliament with the authority to prescribe other functions to the Auditor-General. In addition, the Public Finance and Audit Act (Cap 120) 1978<sup>36</sup> also sets out the more detailed provisions relating the Auditor-General.

As for other ancillary legislation that gives support to actions arising from reports of the Auditor-General,<sup>37</sup> particularly those reports identifying misconduct or corruption, the Leadership Code Commission Act addresses the integrity of public servants, statutory office holders and members of Parliament. Public servants' conduct is also regulated by the Public Service Act and Regulations.

### *Efficacy of the constitutional provisions*

Chapter X of the Constitution deals with 'Finance'. Within that chapter, s 100 makes it clear that all revenues or other monies received for government purposes should be accounted for in the Solomon Islands Consolidated Fund. The only other variation to that intention is where Parliament has specifically, by legislation, made provision for the maintenance of 'special funds': s 100(1) and (2). The administration of those funds, at the close of each financial year, is to be maintained separately in either the Consolidated Fund or in trust or special funds: s 100(3).

The Constitution provides in s 108 that there shall be an Auditor-General and that office shall be a 'public office'. Also, the public accounts of the Solomon Islands, specified to be for all ministries, officers, courts and authorities of

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<sup>35</sup> The Solomon Islands Independence Order 1978.

<sup>36</sup> Public Finance and Audit Act (Cap 120) 1978 (1996 ed).

<sup>37</sup> Office of the Auditor-General, 'An Auditor-Generals Insight into Corruption in Solomon Islands Government', National Parliament Paper No 48 (October 2007).

the government and all provincial governments 'shall' be audited annually by the Auditor-General or a person authorised by him: s 108(3). Section 108(4) provides a specific power and a requirement to the Auditor-General, to submit to the Speaker of Parliament all such annual reports, and to provide a copy of any such reports to the Minister for Finance and the relevant portfolio minister. In the carrying out of those functions, the Auditor-General '... shall not be subject to the direction or control of any other person in authority': s 108(5). Additionally, the Auditor-General is not constrained in carrying out other functions as Parliament may prescribe: s 108(6). In summary, s 108 makes the Auditor-General's powers quite explicit.

### ***Comment on other Constitutional provisions***

Many interviewees raised concern about a lack of integrity of former ministers and public servants, and asserted instances of financial impropriety in the accounting for public funds.

The case outlined above is concerned with a technical breach rather than an ability to deal with official corruption. The Constitutional provisions (Chaps VIII and IX) make clear the responsibilities of office for those office holders listed in s 93. There are also requirements for declarations of conflicts of interest (s 95), suggesting that the statutory provisions are sufficient to deal with the complaints raised.

The Leadership Code (Further Provisions) Act 1999 makes detailed provision for investigation of complaints and hearings by the Commission followed, if necessary, by a court declaration of penalty. The Ombudsman Act also provides for an independent statutory officer to investigate complaints which cannot be resolved with government ministries. These powers or mechanisms are in addition to those relating to public servants, contained in Chap XIII of the Constitution and the detailed statutory and rigid provisions of the Public Service Act and Regulations.

### ***Comments on the Public Finance and Audit Act***

The provisions of the Public Finance and Audit Act, for the most part, are consistent with s 108 of the Constitution. The obligations of the Auditor-General are provided for in the Constitution.

However, s 35(2) provides that the Auditor-General will not be required to audit the accounts of a trust or other funds as envisaged by s 108(3) of the Constitution unless the person administering the fund has been directed by the responsible minister to prepare, sign and transmit those accounts to the Auditor-General. This provision appears to be inconsistent with the Constitution and therefore may be void, unless, after reading the relevant section of the Constitution, s 35(2) can be limited in its application to trust funds (or other funds).

However, in the provisions dealing with statutory bodies, s 47(1), consistent

with the Constitution, provides that ‘... the accounts of any such body corporate shall be examined and audited by the Auditor-General’. The process envisaged in the Constitution of the Auditor-General submitting annual reports to the Speaker for tabling in Parliament, is confirmed in this section of the Act. While s 47(3) of the Act provides that the Auditor-General must submit the report to the Minister and to the body corporate, s 47(5) further provides that if the minister fails within a reasonable time to present the accounts of a statutory body, then the Auditor-General must transmit a copy to the Speaker to lay before the Parliament.

### ***State Owned Enterprises Act***

In addition, s 35(2) appears to be inconsistent with the State Owned Enterprises Act where, the state owned enterprise board must deliver an annual report and audited financial statements to the responsible minister within three months of the close of a financial year. Section 20 of that Act empowers the Auditor-General to audit ‘...every State owned enterprise and every subsidiary of every state owned enterprise’. Although the list of state owned enterprises set out in Sch 2 to the State Owned Enterprises Act may not be exhaustive, it is clear that the intention of Parliament is that the Auditor-General should be independent and empowered to audit all public funds, as specified in following sections:

- s 108 of the Constitution;
- s 34 of the Public Finance and Audit Act; and
- s 20 of the State Owned Enterprises Act.

### ***Scope of audit***

The commentary above indicates that the scope of the Auditor-General’s audit activities is not restricted. Legislative amendment should improve clarity in certain not overly significant areas which will be dealt with in the Conclusion. The comments on the evidence are set out below.

### ***Entities***

According to Sir Peter Kenilorea, the Parliament had always intended to empower its Auditor-General to audit all ‘government’ bodies, or at least those which have the use of public monies. This evidence is most significant in determining the intention of Parliament as Sir Peter was the inaugural Prime Minister of the Solomon Islands and impressed as a man of great integrity. He was certainly in a position to know the intention of Parliament at the time the original audit legislation was passed and considerable weight should be placed on his evidence.

A majority of interviewees perceived the lack of power of the Auditor-General and the scope of audit, at the expense of public interest. Section 35(2) of the

Public Finance and Audit Act does not empower the Auditor-General to audit trust or other funds where the relevant Minister has not directed the preparation and transmission of the accounts to the Auditor-General.

In addition, there are a number of government entities which are corporations, yet the Auditor-General is not a registered company auditor and therefore is not able to audit such entities. The interviewees suggested that at least some government funded Non Government Organisations, eg sporting bodies, should be audited by the Auditor-General because of the materiality of the government grants provided.

During the course of the inquiry concerning the efficacy of the Auditor-General legislation, it was understood that the State Owned Enterprises Act 2007 was proclaimed. The legislative power for the Auditor-General to audit previously non-audited government funded corporations (Solomon Airlines) and other statutory bodies has been rectified.

Despite perceptions of the lack of power for the Auditor-General, the Constitution and the Public Finance and Audit Act are quite robust, as demonstrated by provision in s 108 of the Constitution and strengthened by the power in ss 47 and 20 of the State Owned Enterprises Act. There does not seem to be a need in the law for the Auditor-General to be a registered company auditor for that purpose. This may become a requirement, as provided for in the Public Finance and Audit Act (Cap 120) 1978 should there be any challenge in that area.

Similarly, the involvement of the Auditor-General in the audit of 'trust and other funds' (s 35(2) of the Public Finance and Audit Act) could be expanded by making specific provision in the enabling legislation of the particular fund or trust.

### *Types of funds*

The interviewees noted the apparent lack of complete recording and audit of some donated funds, where the Solomon Islands government is either the recipient or donor. Evidence indicates, if true, some impropriety in the use of funds, in particular in the 'Consolidated Development Expenditure' part of the National Accounts, which in 2008 approximated SBD\$380 million. Of that, it was reported that over SBD\$100 million of the recipient funds, from external governments, may not have been properly accounted for or used.

Similarly, there has been little or no audit of parliamentary entitlements, a further type of fund.

### *Donated funds where the Solomon Islands Government is the recipient*

The risk of fraud or improper accounting is not apparent in projects directly controlled by agencies, eg the Asian Development Bank. However, if monies

are channelled through a government agency then there needs to be adequate controls and audit. Alternatively, aid agencies may appoint an auditor of their choosing to verify the expenditure of donated funds.

It was apparent that poor controls existed in relation to the Constituency Development Fund where some monies, sourced from an overseas government, were allocated to Members of Parliament for expenditure at their own discretion. Undoubtedly, any such claim should be referred to the Leadership Code Commission and investigated. A prohibition of that practice, including a legislative remedy, should be implemented. Therefore, the Auditor-General should be empowered to audit such funds, regardless of whether the donor organisation has its own auditor. Further improvements could be made if there is agreement with the donor organisation and the Auditor-General about the scope and conduct of audits.

### ***Funds donated by the Solomon Islands Government***

The government donates funds, frequently in substantial amounts, to external bodies, for example sporting organisations. There is a perception that there are incidents of these monies being allocated on the basis of personal and political relationships and influences rather than objective criteria.

In addition, the use of those monies has not been subject to audit. It is important that a policy be established to audit the grants where the amounts are material.

### ***Parliamentary entitlements***

The audit of parliamentary entitlements, although an issue of sensitivity, would provide compliance with statutory entitlements. A regular audit of these would not divert resources from other important areas of the Auditor-General's responsibility.

## **IV. Powers of the Parliament in Relation to Audit**

### ***Appointment and oversight of the Auditor-General***

The constitutional powers in relation to oversight of the Auditor-General are similar to those in other jurisdictions. There is separation of power between the government and the Auditor-General and a mechanism to provide effective oversight.

### ***Power to request audits***

While it appears that there is no specific power for special audits to be requested of the Auditor-General, s 108(6) specifically clarifies the intention of Parliament

that ‘nothing ... shall prevent’ the Auditor-General from undertaking ‘other functions in relation to the accounts ... as may be prescribed by Parliament’, and to undertake ‘... other functions in relation to the supervision and control of expenditure from public funds ... as may be prescribed’.

## **V. Oversight of the Auditor-General**

### ***Independent audit of the Auditor-General***

Annual audits of the Office of the Auditor-General are governed by the general provisions<sup>38</sup> which apply to all other public service ministries and agencies, other than state owned enterprises.

Since the Public Finance and Audit Act (Cap 120) 1978 does not make any provision for such periodic performance reviews, a statutory provision should be enacted to provide for the Parliament to appoint independent auditor of Office of the Auditor-General, and report to the Parliamentary Audit Committee.

## **VI. Mandate to Perform Audits**

### ***Terms and conditions of the Office of the Auditor-General staff***

The Office of the Auditor-General staff are officers of the public service, similar to like offices in other jurisdictions. The Public Service Commissioner has control over the head count and classification levels of staff within the Office of the Auditor-General.

The interviewees pointed to the inability in recruiting competent audit staff, due to comparatively low salary levels. Given the imperatives for the Office of the Auditor-General in having adequate resources, appropriate Government policy, formulated by the Public Service Commissioner, would promote the recruitment and retention of the most capable auditors in the market. This might include the development of a specialist scale of salary for auditors at an overall competitive funding level, commensurate with qualifications and experience, and recommended by a parliamentary audit committee.

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<sup>38</sup> Office of the Auditor-General, ‘Status of Audits of Solomon Islands Government Entities as at 30 June 2007’ National Parliament Paper No 34 (August 2007).

### ***Cost recovery from auditees***

The current practice of the Auditor-General recovering costs through fee charging for audits of statutory bodies, state owned enterprises and provincial governments is consistent with that adopted currently by other like organisations in public sectors in many countries.

Presently, financial statements of Ministries are not prepared and audited. If that practice changes in future, then the possibility of cost recovery should be determined as a matter of government policy.

## **VII. Other Factors Affecting the Effectiveness of the Auditor-General**

There appears to be inadequate follow up of recommendations of the Auditor-General's reports by auditee agencies, the Public Accounts Committee or the Parliament. This strengthens the argument for a specific parliamentary audit committee. At the least, the powers of the present Public Accounts Committee to summon accounting officers could be extended to provide the power to summon ministers.

Compulsory professional development, initiated under the authority of the Speaker, should be available to parliamentarians to assist in overcoming the lack of knowledge about the roles and functions of the Auditor-General.

The operational effectiveness of the Office of the Auditor-General could be enhanced through establishment of policy on quality control of audits, and strengthened skills and competencies of the Office of the Auditor-General staff. There is a need for internal auditing within Government and improving the status of the auditing profession.

## **VIII. Non Audit Issues – Ethical and Financial Management Weaknesses**

A number of important issues require attention in Solomon Islands public administration if integrity in public sector accounting and auditing is to be of a high standard, eg staffing structures and independence from the 'wantok' system; skills and training of staff; upgraded computer equipment; lack of effective internal controls; and a system to ensure quotations, appraisals and assessment of quotes independently.

## **IX. Misconduct and Enforceability Mechanisms**

A number of interviewees were concerned about the ongoing corruption of public servants and ministers and the absence of law to prevent it.

The audit function is legislatively sound, with adequate constitutional and statutory provisions to enable action against public servants where a report of impropriety is made (see the Public Service Act and Regulations) or against politicians and public officers. The Leadership Code Commission Act empowers the Leadership Code Commission to issue an ultimate sanction of banning the person complained against from ever holding a position in the public sector in the future. This is to be contrasted with the Public Service Act and Regulations which are concerned with discipline provisions and may result in suspension, and possible penalties of reprimand, fines or dismissal.

The Leadership Code Commission Act provides that everyone has a duty to provide a declaration which discloses interests and conflicts of interests. Therefore, the Auditor-General may make a complaint to the Leadership Code Commission in respect of misconduct.

The Leadership Code Commission Act has a number of apparent weaknesses. For example, it provides no capacity to enforce the Commission's orders against misconduct; it has no power to compel attendance; and it has no power to compel a person to give evidence. No adequate sanctions are provided for under the Act. These could be rectified by merely promulgating such measures in the Regulations which are authorised by s 38 of that Act.

It is concluded that most of the complaints are related to corrupt attitudes and practices, which have become endemic but which can and should be corrected. A power to issue a code of ethics for auditors should be a part of any legislative review of the auditors powers and functions.

Ethical and financial weaknesses might be also addressed by adopting strategies such as:

- (i) having ministers report to Parliament about non achievement of financial administration obligations of ministries and agencies within their portfolios; and
- (ii) enacting whistleblower legislation for the Solomon Islands public sector to provide protection for those who report malpractice.

## **X. State of Accounting and Financial Reporting**

Substantial evidence shows that some of the major shortcomings for the public sector relate to:



- (i) complacency by officers in ministries and agencies;
- (ii) inadequate systems used by ministries and central agencies; and
- (iii) the training of staff which is grossly lacking.

Other shortcomings relate to internal controls and financial delegations for expenditure. Policies and practices have to be determined and documented, and supervisory positions created to ensure proper quotations, assessment of quotes, proper approvals and independence in decision making. Also, checks for the availability of funds prior to incurring expenditure must be enforced.

To prevent misappropriation of funds, strengthening of the internal controls is required, as well as an effective process of recording and defining the bounds of authority for all positions with respect to expenditure of public funds.

The capacity of accounting staff continues to be a problem, both in terms of the skill level and in terms of the availability of accounting resources in day to day transactions. The work of the Office of the Auditor-General raises queries which require response, which, in turn, is slowing the work. Therefore, improved training and systems can reduce the degree of audit queries.

There are numerous accounting practice and financial reporting issues that will require legislative force to make the Government's systems effective. These are dealt with later.

## **XI. Critical Systemic Functions**

The computer-based systems in the Treasury, which are linked to the Ministries, are now outdated and inefficient. Analysis of requirements and design of system take time and money but will ultimately provide the government with good data for improved decision making. This requires a commitment by Government to provide the resourcing necessary to implement efficient systems.

These systems involve determining the types of transactions, the ledgers and other records, and the general purpose and special purpose reports. A tiered approach is required for systems development which includes:

- initial analysis;
- system design and documentation (administrative and electronic);
- audit consultation on accounting systems;
- systems evaluation and funding requirements;
- approval by Government of estimated capital costs;
- detailed design;
- training of staff, system documentation and helpdesk;
- implementation of system selected; and
- systems monitoring and evaluation of performance.

To enable effective administrative systems there will be a need for:

- staff training/education in Treasury and line agencies;
- testing of systems;
- file conversion/data entry as required; and
- parallel running for a period until the new system is 'bedded down'.

## **XII. Consequential Legislative Action Required**

While a number of the deficiencies identified require executive action, funding and staffing resources to remedy the present position, the successful achievement of these operational outcomes require legislative changes to the Public Finance and Audit Act.

These changes provide an ideal opportunity to enshrine the appropriate audit and financial administrative functions in separate statutes – one dealing with audit powers and responsibilities for audit of the central and Provisional Government, and one statute dealing with financial management issues.

However, no matter which legislative structure is selected, the provisions requiring revision would essentially be the same.

Currently, only the National Accounts are prepared and tabled in Parliament, while financial statements for each Government Ministry are not. This fundamental deficiency in not preparing and presenting financial statements for each Government agency should be rectified by legislation and in practice.

### ***National audit legislation***

Parts VI and VIII of the Public Finance and Audit Act would be transferred to a National Audit Act (or other nomenclature), together with added functions such as:

- the specification of more detailed powers and functions of the Auditor-General in respect of Ministries, state owned enterprises and trust accounts;
- the clarification of administrative powers for Auditor-General, staff and contractors where used;
- a clear power to audit Solomon Islands Government Ministries, statutory authorities and provincial governments (and if necessary, all statutory bodies covered by the legislation should be specified by regulation under the Act);
- the provisions concerning appointment and other incidents of office including removal from office and the effect of this for superannuation purposes;
- the obligation on the Auditor-General to report to Parliament, at least annually, on failure of the Ministries and statutory authorities to present

- financial statements for audit by the prescribed date;
- an audit of Auditor-General's operations periodically;
- secrecy/confidentiality;
- the independence of Auditor-General to obtain his/her own legal advice;
- the scope of audits and inspection of accounts for verification of financial statements;
- dealing with loans and trust funds;
- efficiency audits; and
- the penalties for maladministration.

### ***Financial administration legislation***

Expansion of Part VII of Public Finance and Audit Act might include:

- the specific requirement to prepare annual accounts of each Government Ministry;
- the specific requirement to prepare annual consolidated accounts;
- the detailed requirement concerning records to be kept about all revenue and expenditure in each Government Ministry and/or statutory authority;
- the requirements for maintenance of bank accounts for Government Ministries, statutory authorities and provincial governments;
- any authorities, limitations and conditions for investment of public monies outside the central Treasury function;
- ministerial obligations to report to Parliament on non achievement of financial obligations in terms of finalisation of annual financial statements and their submission to the Auditor-General for audit;
- the financial statements required to be prepared, including notes/ explanations to accounts;
- dealing with trust funds;
- dealing with loan funds;
- the declaration of private monies collected in an official capacity;
- the responsibilities of chief executive officers of Solomon Islands Ministries and statutory authorities; and
- borrowing and investment by statutory agencies and provisional governments.

## **XIII. Conclusion**

This study has focussed on the interaction with and the effectiveness of, levels of governance and management. The outcomes point to shortcomings by Ministerial intervention where nepotism and corruption is perceived internally and externally. The Office of Auditor-General is seen to be diminished in this context.

The analysis of the evidence reveals two main concerns with respect to the effectiveness of the Auditor-General's role and the staff of the Office of the Auditor-General:

1. issues underpinning the Auditor-General's role – this refers to inadequacies in financial management of Government funded organisations and specifically poor financial accounting systems; weak internal/procedural controls; and inadequate administrative/clerical recording systems; and
2. conflict of interest by some senior government figures, impropriety by senior public servants and politicians involving public monies; a paucity of training of staff in systems, procedures and ethical accounting practices.

Our findings are contrary to that argument and is based on a more micro level analysis of both public service functioning and of the ministerial mode of operation. Our findings do not make conclusions about the social and cultural dynamics or of 'patronage networks', although we met with and were conscious of those dynamics. We did, however, reach different conclusions about the efficacy and standard of the professional practices adopted in the Solomon Islands Government (including the Public Service) with respect to accounting and auditing. The manifestation of the role of the Office of Auditor-General within the constitutional structure appears structurally sound, but it is, in our view, less open and accountable than it is in most developed democracies. Indeed, it has tended to exclude the Auditor-General where some senior ministers have found it convenient. Those in the public service seem to acknowledge this also.

The fundamental underpinning of our findings about effective change for the future is based on overcoming the identified weaknesses in legislation, relevant systems or practices. Strengthening these areas should enable the Office of the Auditor-General to pursue its mandate effectively and with probity, ensuring the independence of the Auditor-General and giving confidence in the population that their interests are governed properly and honestly.